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USSR: 1988 Economic Targets Burden Reform

Summary

As a year when numerous reforms are to be launched, 1988 will be a key year for the Soviet economy. The transition from the old system of management to the new would be eased by a reduction of growth targets, but the 1988 annual plan implies no backing off from the ambitious goals of the twelfth five year plan. Gosplan-head Talyzin's speech on the 1988 plan provides no clues on how the reform package will be implemented simultaneously with these other demanding objectives. Enterprise managers will be hard pressed in 1988 to cope with the as-yet unresolved ambiguities and contradictions of the reform package while trying to meet ambitious output targets.

Meanwhile, Moscow is attempting to enlist popular support for "restructuring" by devoting more rhetoric and resources to some consumer areas. The 1988 plan calls for greater production of food and soft goods than originally specified for 1988 in the five year plan. Talyzin said that increased goals for housing construction and other consumer-oriented facilities are to be financed by a shift in investment resources from other (unspecified) users. The draft budget for 1988 does imply that the leadership is not planning to raise retail prices next year--the budget allocates 73 billion rubles to maintain retail price subsidies, the same amount as allocated for this year.

This memorandum was prepared by [redacted] Office of Soviet Analysis, with a contribution from [redacted] Comments and queries are welcome and should be addressed to the Chief, National Issues Group [redacted]

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Pre-plan Rhetoric: Downplaying Growth

Gorbachev acknowledged in his June plenum speech that the transition to comprehensive reforms approved by the Central Committee in June will create problems of "unusual complexity," but it is not clear whether he and his Politburo colleagues have really come to grips with the possibility of major disruptions in production.¹ Although Gorbachev played down the importance of "growth" as traditionally defined, both he and Premier Ryzhkov still felt compelled to warn the enterprises that restructuring must not deter them from fulfilling current five-year plan targets.

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The most potentially disruptive facet of the reforms is the schedule for imposing conditions of full self-finance on enterprises. In 1987, self-financing affected all firms in five industrial ministries and 37 entities in various others; all together they represent over 20 percent of total industrial output and 16 percent of employment. According to Ryzhkov, self-financed enterprises will account for 60 percent of industrial output in 1988, when the new conditions will also apply to all branches of transportation and a number of other sectors.

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The Soviet Council of Ministers met in August 1987 to discuss a draft version of the economic plan for 1988. At this meeting, planners were instructed in their revisions "to take

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into account the peculiarities of the year ahead, which lie first and foremost in the fact that the USSR Law on the State Enterprise will come into force and more than one-half of industrial output will be produced by enterprises working under self-financing." In light of the prospective disruptions acknowledged by Gorbachev, this instruction to take account of the 1988 reforms could be read as a message to planners to downplay growth targets.

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The 1988 Plan

No Let-Up in Growth Targets

The 1988 annual plan implies no backing off from the goals of the twelfth five year plan. The 1988 goal for industrial output, for example, is 4.5 percent above the plan for 1987, the same figure originally specified for 1988 in the five year plan law. The poor performance of 1987, however, means that the 1988 goals of the five-year plan are further out of reach than ever (see table). For example, industrial output would have to grow more than 7 percent next year in order to meet the 1988 output goal. Machinery output would have to grow 15 percent next year.

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The 1988 plan is reminiscent of plans of earlier eras in its reliance on ambitious targets for productivity improvements. Increased labor productivity is to account for "practically all"

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USSR: The 1988 Plan in Perspective
(average annual rate of growth)

	<u>1981-85</u>	<u>1986</u>	<u>1987^a</u>	<u>1988 Plan^b</u>	<u>Implied 1988 Plan^c</u>
GNP	1.9	4.2	1 to 1.5	4	7.5
Industrial Production	2.0	3.6	2 to 2.5	4.5	7
Machinebuilding	1.7	4.4	1 to 1.5	7.1	15
Agriculture ^d	1.9	7.3	-1 to 0	3.4	12
Investment	3.3	7.4	5	3.5	3.5
Real Per Capita Incomes ^e	2.3	1.5	1	2.7	4

a. Estimated based on performance through September.

b. The growth targets presented in the Law on the State Plan of Economic and Social Development for 1988 are all with respect to 1987 planned levels.

c. We adjusted the announced 1988 growth targets so they are with respect to the likely achieved levels in 1987, since in most cases the 1987 planned levels will not be met.

d. Net value of output which excludes intra-agricultural use of farm products, except 1988 which reflects the Soviet plan figure.

e. The figure for 1981-85 and 1986 should be interpreted with caution. The Soviet statistical authorities apparently manipulated the figures for 1985-86 to exclude (or minimize) the effects on reported performance of reduced sales of alcohol.

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the increase in national income. The plan also calls for big gains in resource conservation. In his speech to the Supreme Soviet, Gosplan-head Talyzin stated, for example, that savings of rolled ferrous metals are to support 79 percent of the growth in machinery output. He said that scientific and technological advances will provide a major increment to growth. According to a recent Pravda editorial, Moscow is also counting on introduction of new reforms next year aimed at increasing enterprise autonomy and worker productivity to provide the incentives to reach these goals. [REDACTED]

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The Talyzin speech on the 1988 plan provides no clues on how the comprehensive reform program approved by the Central Committee in June will be implemented simultaneously with other demanding objectives. In the one passage of the speech that deals with the measures coming into force in 1988--the State Enterprise Law beginning 1 January 1988 and the large scale expansion of enterprises under conditions of "self-finance"--Talyzin basically acknowledges these changes in operating conditions but then goes on to instruct enterprises to do everything at once, including to accelerate S&T progress, retool, improve quality, ensure production, and "steadily introduce progressive principles of economic management." [REDACTED]

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Soviet economists, however, have warned that pursuit of ambitious output targets are incompatible with economic reform. According to the reforms, for example, the percentage of enterprise output ordered by the state is to become smaller and

the remainder marketed with competing customers. High output targets make it likely that enterprises will press for high state orders, since state orders will ensure priority allocation of production inputs. Two reputed advisors to Gorbachev, L. Abalkin and A. Aganbegyan, told US officials that, although the 12th Five-Year Plan cannot be abandoned, many key objectives of the plan are irreconcilable with reform. Reform economist N. Shmelev recently stated that the ambitious growth targets of the twelfth five year plan conflict directly with economic reform.

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Increased Priority for the Consumer

The Gorbachev leadership in recent months has expressed increasing concern that output and quality of consumer goods and services is not growing fast enough to provide incentives for harder work or to spur enthusiasm for economic restructuring (see inset). At a special Central Committee conference on consumer goods and services, Ligachev stated that shortages in the consumer sphere and their dampening effect on labor productivity had become "a brake on economic growth." More recently, Gorbachev indicated that improving "the people's everyday life" is more urgent even than modernization.

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Gosplan-head Talyzin in his speech to the Supreme Soviet highlighted the role of the consumer sector and stated that "the attitude to resolving social questions has been radically changed in the plan." He said that production of food and soft goods

Box Inset

Workers Feel Few Benefits of Reform

The lack of popular enthusiasm for Gorbachev's economic "restructuring" was highlighted in a survey conducted by the Soviet academy of Sciences and published in Izvestiya. According to the poll, 90 percent of the population supports restructuring in principle but most workers do not believe they have benefitted from it. In fact, most Moscow workers polled have felt the effects of restructuring only through increased workloads. Some 40 percent of workers in Kazakhstan wanted to protect incomes threatened by measures against wage leveling.

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End Box Inset

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would grow faster in 1988 than originally set out in the five year plan. Consumer services--including personal care and repair, personal transportation and communication, and recreational services--are also slated to grow faster in 1988 than originally scheduled. The draft budget for 1988 indicates that the leadership is not planning to raise retail prices next year--the budget allocates 73 billion rubles to maintain retail price subsidies, the same amount as allocated for this year.

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Talyzin also announced a substantial shift in investment resources from the "material production" sectors to housing construction and other consumer oriented facilities. As a result, Talyzin said housing construction in the first three years of the plan (1986-88) is to exceed the amount originally called for by some 6.9%. Goals for construction of preschools, retirement homes, clubs, and theaters were also raised.

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It is not clear which sectors have lost investment resources. Talyzin indicated that the machine-building sector is to continue to get priority access to investment resources. Since the massive development effort in Soviet oilfields will require further large infusions of investment, the oil industry also is not likely to see cutbacks. Talyzin mentioned that the 1988 construction plans for some ministries had been revised down from targets specified for 1988 in the five year plan but did not specify which ministries will take the cuts.

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